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CURRENT  
ANALYSES

DEPARTMENT OF STATE A/CDC/MR

VIEWED by *McNair* DATE *2/23/81*

RELEASE ( ) DECLASSIFY  
EXCISE (X) DECLASSIFY in PART  
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EO or PA exemptions *(b)(1)*

**EXCISE**

E-AF  
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163-CA-2

TS authority to:  
CLASSIFY as (U) *AFGHANISTAN: ECONOMIC IMPACT OF*  
DOWNGRADE TS to ( ) S of ( ) *THE SOVIET INVASION*

(S) Summary

The Soviet occupation of Afghanistan and the insurgent opposition have resulted in a near cessation of large-scale economic activity other than production and export of natural gas. Subsistence farming and other small-scale activities continue in the face of problems. Soviet policy appears not to sanction widespread destruction of crops, though retaliatory action has been taken in areas in which insurgents are most active. In fact, agricultural output in many areas has been relatively unaffected by the occupation. Aided by good weather, food production in 1980 exceeded that of 1979, a drought year.

Guerrilla activities have seriously disrupted the distribution system by destroying thousands of trucks and blocking major roads. The year and a half of fighting has changed trade patterns, leaving Afghanistan even more closely tied to the Soviet Union. Development projects are at a standstill, unemployment high, and the Afghan Government increasingly dependent on Soviet economic assistance. Unless the insurgency problem is solved, Afghanistan will continue to be a net liability to the USSR. Because of the primitive nature of the Afghan economy, however, this drain is not likely to cause serious problems for the Soviets.

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WARNING NOTICE  
SENSITIVE INTELLIGENCE SOURCES  
AND METHODS INVOLVED

Report 163-CA  
June 16, 1981

87-008-03443 - 86

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Agriculture

(U) Agriculture, largely subsistence in nature, employs about 75 percent of the Afghan labor force and does not appear to have been seriously affected by the Soviet occupation. Aided by favorable weather conditions, the 1980 harvest exceeded that of 1979. In late January 1981, Soltan Ali Keshtmand, then Revolutionary Council Vice Chairman and Deputy Prime Minister of the Democratic Republic of Afghanistan (DRA), announced that grain production in 1980 had been 4.37 million tons, 150,000 tons more than the previous year. His figures also showed small gains in the production of potatoes, fruits, and vegetables. Cotton and sugar beets, however, did not meet targeted amounts.<sup>1/</sup>

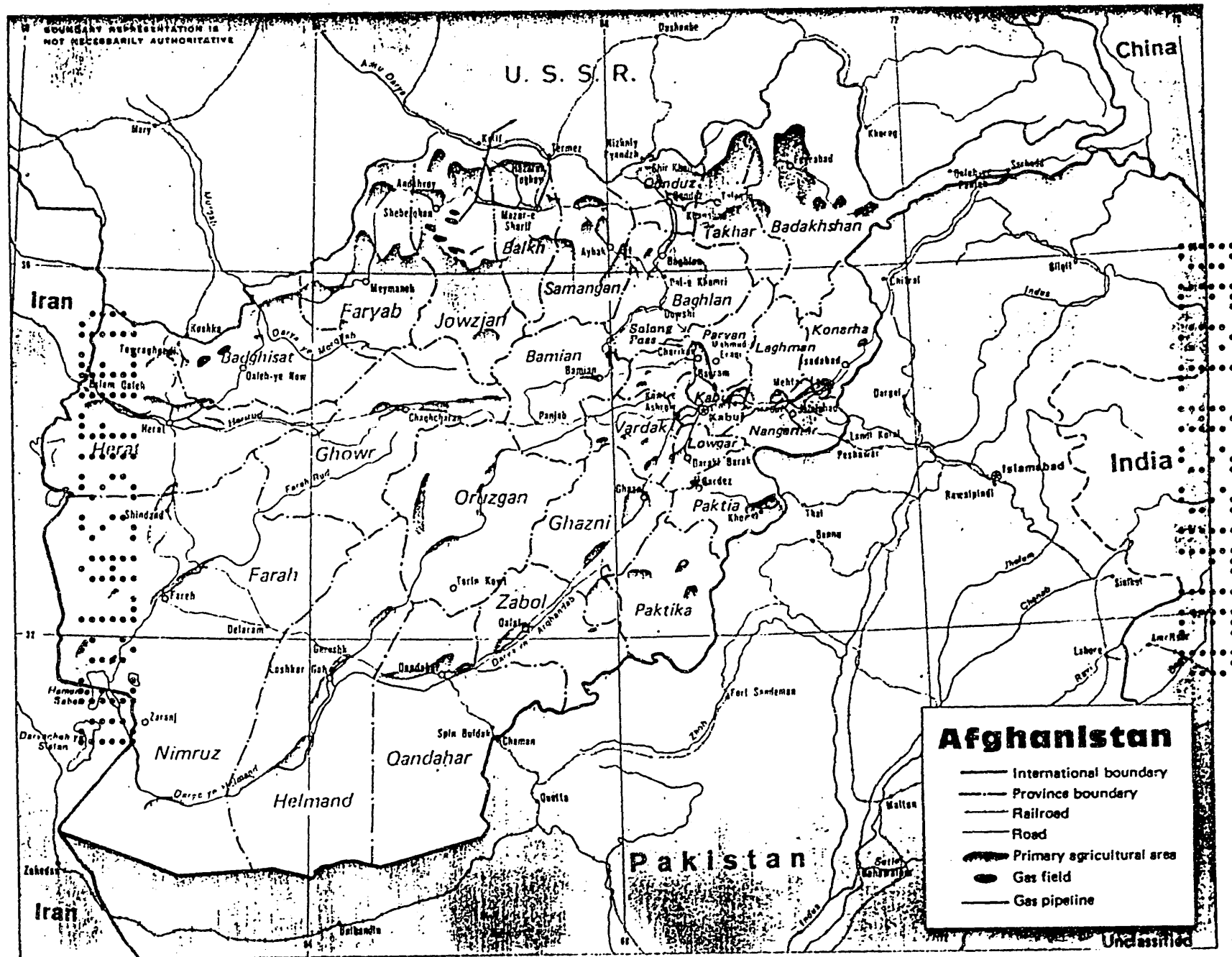
(C) Agriculture accounts for more than 60 percent of Afghanistan's gross domestic product. Most agricultural areas are located in the northern portion of the country, in the major river valleys, and around Kabul (see map, page 2). Wheat is

<sup>1/</sup> Owing to civil disturbances, no other production data are available to confirm or deny the announced figures. Other evidence does support Keshtmand's contention that the 1980 harvest exceeded that of 1979.

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the most important grain crop and the staple of the Afghan diet. Other important crops are rice, fruits, vegetables, cotton, sugar beets, and oilseeds. Afghan livestock consist mainly of sheep. Agricultural production usually is sufficient for local needs, though wheat in varying amounts is normally imported. An average of 160,000 tons of wheat was imported annually during the mid-1970s, but rose to an estimated 400,000 tons in 1979, a drought year. Afghanistan normally has a surplus on the agricultural trade balance, with fruits, nuts, Karakul sheepskins, raw cotton, and wool being the major exports.

(C) Contrary to some reports, the Soviets have not pursued a scorched-earth policy in most growing areas: They apparently realize that to deny food to insurgents would require denying food to the majority of the population, and they are prepared neither to cause mass starvation nor to undertake a larger aid program. Except where directly threatened, the Soviets may even be trying to help farmers increase their output. According to Keshtmand, the USSR will provide free wheat, cotton, and sugar beet seed along with chemical fertilizer in the coming year. The Soviets probably view agricultural assistance as a means of encouraging collectivization and, to the extent possible, will distribute their aid through farmers cooperatives.

(C) On the basis of information now available, the major determinant of 1981 agricultural production is likely to be the weather. A radical change in Soviet policy or a sharp upturn in insurgent activity could, however, be a significant negative factor.

#### Internal Commerce

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(S) Kabul and other urban areas have had serious food shortages since late 1980 because produce has not reached markets. Sporadic strikes by shopkeepers add to the problem. The situation is likely to worsen unless the Soviets succeed in controlling the insurgent bands. Food distribution problems already have caused the Soviets to increase grain imports to feed the cities, particularly Kabul.

#### Changing Trade Patterns

(S) Afghanistan's foreign trade is increasingly restricted to the Soviet Union (its major trading partner even before the revolution) and East European countries. A combination of the near cessation of investment projects funded by Western assistance, the general shortage of foreign exchange, and the insurgent activity on the roads has sharply reduced imports from the West.

(C) In 1980, trade with the Soviet Union increased 57 percent, totaling \$778 million. According to Soviet statistics, Afghan exports to the Soviet Union grew 85 percent to \$396 million worth, almost entirely a reflection of higher prices for natural gas. At the same time, imports from the USSR were up 35 percent, reaching a value of \$382 million.

(S) With all major roads either blocked or extremely dangerous, it is no longer possible to bring in heavy or bulky goods via Iran or Pakistan, formerly the major transit routes for trade with the West. Some light consumer goods continue to be brought across the border with Pakistan, legally or otherwise. Imports from the European Community (EC) were down 23 percent in the first 9 months of 1980 from the \$57 million worth imported in the same period in 1979. Figures for 1981 trade with the EC may be even lower. Although complete and detailed trade statistics are not available, residents of Kabul have noted an increase in the amount of Soviet goods sold in shops--to the exclusion of the Western and Japanese items formerly found there.

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(U) Major exports to noncommunist countries are fruits, nuts, skins, and carpets. Although accurate figures are unavailable, it is probable that this trade continues, but not through legal export channels.

(C) Natural Gas Exports: Singularly Important

Natural gas is Afghanistan's major export, and even before the occupation all of it went to the USSR. The Soviets have traditionally paid much lower prices than those prevailing on the world market. Just after the invasion, an agreement was announced whereby the amount of gas exported to the USSR would be trebled to 2.3 billion cubic feet per year and the price increased from just over \$1.00 per thousand cubic feet to about \$2.40 per thousand cubic feet.<sup>2/</sup> The new price is roughly equivalent to what the Soviets are believed to be offering the Iranians for natural gas and less than half what the United States, Western Europe, and Japan pay. Iran, however, is asking for a price closer to the world price.

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<sup>2/</sup> Exports may have been unnaturally low because of civil unrest; export capacity is believed to be considerably greater than 2.3 billion cubic feet per annum.

(C) Conclusion/Outlook

Bereft of many of its former ties to the outside world, Afghanistan is being drawn closer to the USSR. Whatever the Soviets' motivation for the invasion, they are finding that they have acquired an economic, as well as a political and military, liability. Commodity assistance will be necessary for the foreseeable future.

Despite Soviet attempts to increase local agricultural production, output is likely to decline as more nationals depart. (An estimated 1.8 million Afghans out of a population of about 14.5 million are already in camps in Pakistan, and an unknown number are in Iran.) With the Afghan economy disrupted, increased aid may be needed merely to pay the Afghan Army and civil servants and provide something for them to buy with their wages. Unless the Soviets manage to control the insurgents, aid requirements are likely to increase. However, because of the primitive nature of the Afghan economy, the economic drain on the USSR will be more a persistent nuisance than a serious economic strain.

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